

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



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Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)

**REPLY OF SUBURBAN WATER SYSTEMS TO COMMENTS ON THE SETTLEMENT  
BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND SUBURBAN  
WATER SYSTEMS**

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Date: June 7, 2007

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**I. INTRODUCTION**

Pursuant to Rule 12.2 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") and the March 8, 2007 *Assigned Commissioner's Ruling and Scoping Memo* ("Scoping Memo"), Suburban Water Systems ("Suburban") hereby submits its reply to the comments filed on May 23, 2007 on the Settlement Between the Division of Ratepayer Advocates ("Settlement"). The Settlement proposed a conservation rate design and a low-income ratepayer assistance program ("LIRA"). Individual comments were filed by the Consumer Federation of California ("CFC"), Disability Rights Advocates ("DisabRA"), and

Park Water Company (“Park Water”). Joint comments were filed by the National Consumer Law Center (“NCLC”), The Utility Reform Network (“TURN”) and Latino Issues Forum (“LIF”) (or “Joint Commenters”).

Suburban is pleased to note that there was very little outright opposition to the Settlement. Indeed, most parties supported the Settlement, but suggested modifications. The parties addressed the following issues: (1) the Water Revenue Adjustment Mechanism (“WRAM”), (2) rate design, (3) data collection, (4) public outreach and education, and (5) accessibility. Suburban will address the comments on these issues below.

## **II. WATER REVENUE ADJUSTMENT MECHANISM**

The Joint Commenters, CFC and Park Water all addressed the WRAM in their comments. Unfortunately, with the exception of Park Water, it is clear from the comments that the proposed WRAM was misunderstood.

As directed by the Commission, Suburban and DRA have proposed a “Monterey-style” WRAM.<sup>1</sup> As noted in the Settlement, this style of WRAM, based on the WRAM in effect in California American Water’s Monterey District, does not fully decouple revenue from sales. Indeed, as Park Water correctly noted in its comments, “it does not account for the loss in revenue due to reduced sales that result from a conservation rate design.”<sup>2</sup> Instead, the proposed WRAM merely tracks the difference between revenues collected based on the conservation rate design and what revenues would have been collected for the same amount of water sold under the traditional Commission rate design. The proposed WRAM addresses only this difference in rate design, not in amount of water sold.

Additionally, this WRAM provides a benefit to customers as well. For example,

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<sup>1</sup> See *Application of Suburban Water Systems*, D.06-08-017, 2006 Cal. PUC LEXIS 369.

<sup>2</sup> Park Water Comments, p. 3 (emphasis added). As Park Water noted in its Comments, the rationale for adopting the Monterey-style WRAM is not necessarily applicable to other water companies. It is not Suburban’s intent to propose a Monterey-style WRAM as a generic mechanism applicable to other water utilities.

although DRA and Suburban attempted to create a revenue neutral rate design, it is possible that the implementation of the proposed conservation rate design could result in increased revenue collection, perhaps due to the higher prices charged in the second block, as compared to what Suburban would have collected based on the same amount of water sold under the traditional Commission rate design. Under the proposed WRAM, the difference between what Suburban collected under the conservation rate design and what it would have collected under the traditional rate design would be refunded to customers.

The Joint Commenters and CFC urge the Commission to modify the Settlement or take other action, based on their mistaken belief that the proposed WRAM provides for recovery of lost revenues from decreased sales due to conservation. For example, CFC suggests that “Suburban should be required to develop and file contingency plans for the least-cost method of securing a supply of purchased water if sales decline, and should be required to justify any deviation from those plans.”<sup>3</sup> As noted in the Settlement Motion, however, Suburban has a large and varied number of purchased water sources.<sup>4</sup> Indeed, Suburban’s single ratemaking district purchases water from twenty-five different sources, far more than any other Class A water utility ratemaking district. Management of these varied water sources is so complex, and depends on such a large variety of factors, that Suburban employs a person whose primary function is to closely monitor water production and ensure the most efficient and cost effective water supply mix. Because of the number of variables involved in this calculation, the modification suggested by CFC would hamstring Suburban’s ability to efficiently manage its water supply. Moreover, since the suggestion was based on the mistaken belief that the proposed WRAM offered relief from lost revenue due to conservation, it is unnecessary and should be disregarded.

CFC also suggests, “The amount of credit given to low-income customers, or the

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<sup>3</sup> CFC Comments, p. 10.

<sup>4</sup> Settlement Motion, p. 10.

amount of the surcharge imposed on other customers, should be calibrated to reflect the increased cost created by compensating the utility for perceived lost sales.”<sup>5</sup> The Commission should similarly disregard this suggestion, as well as the other modifications set forth on pages 10-11 of the CFC Comments, based as they are on misconceptions regarding the proposed WRAM.

The Joint Commenters suggest that the Commission reduce Suburban’s return on equity (“ROE”), based on the mistaken belief that the proposed WRAM will reduce Suburban’s “overall risks from fluctuations in sales volume due to all factors, including conservation as well as weather and other extrinsic factors.”<sup>6</sup> As discussed above, however, the proposed Monterey-style WRAM does not address fluctuations in sales volumes. Therefore, there is no justification for a reduced ROE.<sup>7</sup>

### **III. RATE DESIGN**

The Joint Commenters, DisabRA and CFC all addressed different aspects of rate design in their comments. The Joint Commenters stated that they did not oppose the conservation rate design at this time, particularly since Suburban is scheduled to file its next general rate case application in January 2008 and conservation rate design can be examined as part of that proceeding. The Joint Commenters, did, however, disagree with application of the low-income credit, as did DisabRA. CFC provided more extensive comments on the conservation rate design, including criticisms of the service charge and the structure of the rate blocks. Suburban will address the issues raised by the Joint Commenters, DisabRA and CFC below.

Joint Commenters and CFC both recommended that the low-income program

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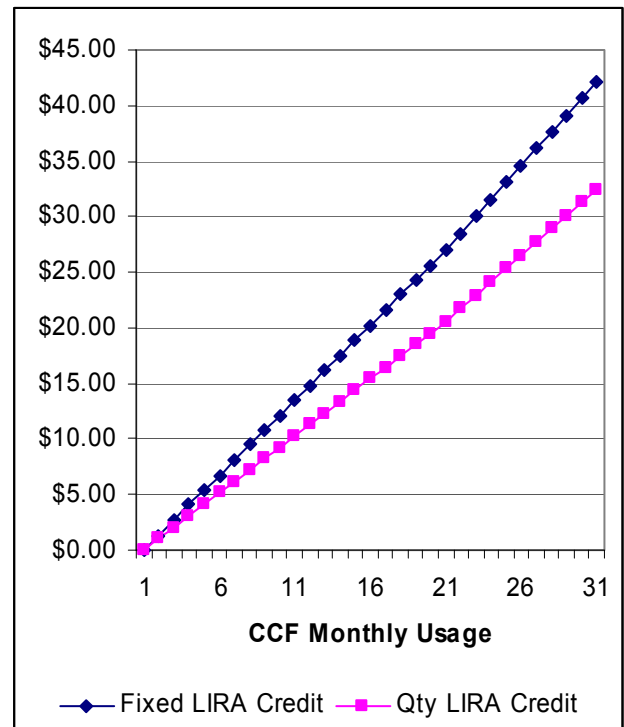
<sup>5</sup> CFC Comments, p. 11.

<sup>6</sup> Joint Comments, p. 3.

<sup>7</sup> Additionally, on May 29, 2007, Administrative Law Judge Grau issued a ruling that modified the procedural schedule to address the issue of a ROE reduction in Phase 1B of this proceeding.

discount be calculated as a 15% reduction of the total customer bill, rather than as a flat \$6.50 discount as proposed in the Settlement.<sup>8</sup> Although Suburban and DRA considered a percentage discount when they developed the low-income program proposal, they rejected it due the concerns that it would interfere with the goals of the conservation rate design. A 15% reduction in the total customer bill could mask the conservation signals sent by the new rate design. A discount based on the total bill, rather than a \$6.50 credit, could offset increased charges due to the conservation rate design. This would mean that these customers would not receive the price signal to conserve water.

The graph to the right vividly makes this point. It shows total monthly quantity charges that a typical San Jose Hills service area customer would receive at various levels of monthly usage with the recommended fixed low income credit and with a usage-based low income credit. This graph confirms the perverse pricing signal that low income customers receive with a usage-based low income credit. Not only does the amount of the credit increase with greater usage, but the credit more than offsets by a wide margin the pricing signal that otherwise occurs at the 20ccf switchpoint. Suburban therefore urges the Commission to adopt the low-income program credit proposed in the Settlement.



As noted above, CFC included more critiques and suggested modifications of the conservation rate design. CFC suggested that the Commission develop a new service charge for

<sup>8</sup> Joint Comments, p. 6; DisabRA Comments, p. 5.

the conservation rate design.<sup>9</sup> As noted in the Settlement Motion, however, a reduced service charge that shifted recovery of fixed costs to the quantity charge could have a disproportionate impact on multiple occupancy dwellings or residences with a large number of occupants, which are often occupied by low-income consumers.<sup>10</sup> CFC does not have a specific proposal to address this concern. Instead, it suggests that Suburban should identify these customers and design specific conservation rates for them.<sup>11</sup> Not only would this be unduly burdensome for Suburban, whose records do not identify which of its 75,000 customers are multiple occupancy dwellings, but it would unnecessarily delay the implementation of conservation rates. Suburban urges the Commission to reject this suggestion.

CFC has a concern that “It is not clear whether the ratio of meter charge and revenues excludes ‘other revenues’, as required by the CUWCC.” For Suburban “other revenues” comprise only about .4% of total revenue and therefore should not be a concern.

CFC also criticizes the two-block rate design proposed by Suburban and DRA. CFC suggests “a discount rate, below the first tier, to recognize the decreased costs to the system of a residential customer who uses less water than the average customer.”<sup>12</sup> This proposal contains two assumptions: (1) that lower than average usage by a residential customer results in decreased system costs, and (2) that these decreased system costs could be calculated. At this point, there is not enough data to determine whether or not those assumptions are correct.

In footnote 3, CFC refers to a July 25, 2006 letter to the Commissioners from California American Water Company, California Water Company (sic), Golden State Water Company, Natural Resources Defense Council and Mono Lake Committee regarding

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<sup>9</sup> CFC Comments, p. 6.

<sup>10</sup> Settlement Motion, p. 6.

<sup>11</sup> CFC Comments, p. 6.

<sup>12</sup> CFC Comments, p. 7.

recommendations to implement the Water Action Plan. CFC states that “While Suburban was not one of the original signatories of the letter, we urge the parties to consider this recommendation as a starting point for negotiations on an appropriate amount for conservation measures.” However, NCLC fails to mention that the water companies sent a subsequent letter to the Commissioners clarifying that the recommendations were not meant to be applied to other water utilities.

CFC also suggests further complicating the proposed rate design through the addition a third block to address “excessive use.” DRA and Suburban made extensive evaluations of three tier rate structures. However, after carefully examining the data it was determined that there was no significant difference between winter and summer usage and a three tier rate structure was not warranted. The Commission should disregard CFC’s comments and adopt the conservation rate design as proposed.

Finally, CFC expresses concern regarding the description of the conservation rate design as a “trial program”<sup>13</sup> and the 90-day implementation period.<sup>14</sup> By describing the conservation rate design as a “trial program” it was not Suburban and DRA’s intention to indicate the possibility of a return to the single block rate design. Instead, Suburban and DRA’s described the proposed conservation rate design as a trial program to account for the fact that Suburban will be filing a general rate case application in January 2008 and the conservation rate design could be tweaked or adjusted as part of that proceeding. As for the 90-day implementation period for the conservation rate design, that time is needed for Suburban to begin its customer outreach and education and to modify its billing systems to reflect the new rate design.

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<sup>13</sup> *Id.*, p. 8.

<sup>14</sup> *Id.*, p. 9.



#### IV. DATA COLLECTION

The Joint Commenters, DisabRA, and CFC also urge the Commission to impose certain data collection and reporting obligations on Suburban. Many of these proposals would increase the costs of the conservation and low-income support programs (costs that would ultimately be borne by customers) and place significant burdens on Suburban. Additionally, it is unclear whether the suggested data to be collected would be informative or useful due to the potential for misleading results. Suburban cautions the Commission to keep these issues in mind when it considers imposing data collection requirements.

The Joint Commenters and DisabRA recommend that the Commission adopt the following monthly reporting requirements:

1. The number of residential customers
2. The number of low-income customers (based on participation in the low-income ratepayer assistance program (“LIRA”))
3. The number of residential customers in arrears (low-income households reported separately)
4. The total amount of dollars in arrears (low-income households reported separately)
5. The number of residential households disconnected (low-income households reported separately)
6. The number residential households reconnected (low-income households reported separately)
7. The monthly usage data for residential households (low-income households reported separately)<sup>15</sup>

First, a monthly reporting requirement is unduly burdensome and unnecessary. Monthly reporting would be extremely time-consuming there is little likelihood that the data would actually be analyzed on a monthly basis. In the Settlement, Suburban and DRA recommend either annual reporting or reporting as part of the general rate case process. This level of reporting is more than sufficient. Second, Suburban is concerned that the data collected, even on an annual basis, would be misleading or of little use. Recent history of low income programs, for example at San Jose Water Company and San Gabriel Valley Water Company, has

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<sup>15</sup> Joint Comments p. 4; DisabRA Comments, p. 5.

shown that even with extensive outreach efforts, many low income households do not apply to participate in low income programs. Therefore the assumption that data representing low income program participants is necessarily representative of all low income households is highly questionable.

CFC recommended that the Commission adopt the following reporting requirements for the general rate case filing:

1. The patterns of usage of some residential customers using large volumes of water
2. The patterns of usage of some commercial and industrial customers who might be introduced to conservation rates
3. Identification of multi-unit residential buildings and additional identification of those that house low-income tenants
4. Installation of meters on some multi-unit buildings with reporting on the effect on usage<sup>16</sup>

CFC's first suggestion is unclear. While Suburban is able to track the usage of any individual customer, it is not sure what CFC's means by tracking the patterns of "some residential customers." CFC's second suggestion, regarding usage patterns of "some commercial and industrial customers," is similarly confusing. Additionally, conservation rates for commercial and industrial customers present unique challenges and are not being proposed as part of this proceeding. CFC's third and fourth suggestions, regarding multi-unit buildings, are unduly burdensome and unreasonable. As mentioned above, Suburban does not currently keep track of which of its residential customers are multi-unit buildings. An expensive and time-consuming audit would be necessary to identify these customers. The further identification of low-income customers within these buildings would be even more difficult. As for installing individual meters on multi-unit residences, not only would it be extremely costly, but also it is unclear whether the building owners would even consent to such installations. The Commission should reject CFC's data collection proposals.

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<sup>16</sup> CFC Comments, p. 9.

## **V. ACCESSIBILITY**

The Comments of DisabRA pointed out that while Suburban pledged to ensure the accessibility of information and programs, the Settlement contained few details. This was not due to a lack of commitment on Suburban's part, but a lack of information. To remedy this situation, Suburban met with DisabRA on June 1, 2007 to discuss ways to make its customer communications more accessible. As a result of this meeting, Suburban is evaluating its systems and capabilities to determine which steps it will be able to implement. The measures that Suburban is considering include, but are not limited to: purchase of TTY equipment and related training; redesign of bills and customer communications to include key information in large print; tracking customers with TTY machines or who have requested large print communications; web design that will work with screen readers; and providing information and education sessions to community based organizations ("CBOs") that provides services to people with disabilities, senior citizens, and/or low-income customers. Indeed, Suburban has begun contacting CBOs regarding distribution of literature and in-person informational sessions. Additionally, Suburban is in the midst of preparing for a complete overhaul of its billing, data collection and communications systems, and hopes to implement increased accessibility as part of these changes. Suburban will continue its discussions with DisabRA and hopes to resolve any differences by the June 29, 2007 testimony deadline.

## **VI. PUBLIC OUTREACH AND EDUCATION**

Suburban recognizes the need to inform and educate its customers about the implementation of the conservation rate design and the adoption of the LIRA program. Suburban also recognizes the benefit of coordinating the conservation public outreach and education with the LIRA program informational efforts. Similar to the data collection suggestions above, however, Suburban cautions that the benefit of any public outreach and education programs must be weighed against the cost of the programs to the customers. Further, in recent discussions with community based organizations Suburban is finding that their assistance is limited to providing meeting facilities and making literature available. They will

not, for example, accept compensation for signups to LIRA programs or agree to participate actively in informational efforts.

The time constraints of the procedural schedule did not allow Suburban to fully explore these issues with DRA, let alone the other parties. Suburban has indicated its willingness to participate in upcoming all-party meetings to address these issues and hopes to be able to resolve them by the June 29, 2007 testimony deadline.

Dated: June 7, 2007

Respectfully submitted,

By: /s/ Lori Anne Dolqueist

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**PROOF OF SERVICE**

I, Cinthia A. Velez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is STEEFEL, LEVITT & WEISS, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On June 7, 2007, I served the within:

***Reply of Suburban Water Systems to Comments on the  
Settlement Between the Division of Ratepayer Advocates and  
Suburban Water Systems***

on the interested parties in this action addressed as follows:

***See attached service list***

- ☒ **(BY PUC E-MAIL SERVICE)** By transmitting such document(s) electronically from Steefel, Levitt & Weiss, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practices of Steefel, Levitt & Weiss for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 1.1 of the Public Utilities Commission of the State of California and all protocols described therein.
- ☒ **(BY MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Steefel, Levitt & Weiss, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Steefel, Levitt & Weiss for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on June 7, 2007, at San Francisco, California.

\_\_\_\_\_  
*/s/ Cinthia A. Velez*

Cinthia A. Velez

**SERVICE LIST**  
**I.07-01-022; A.06-09-006; A.06-10-026; A.06-11-009; A.06-11-010**  
**(Last changed: May 18, 2007)**

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